



DIGITAL FINANCIAL INCLUSION: A PILLAR OF RESILIENCE AMIDST COVID-19 IN THE MEDITERRANEAN AND AFRICA

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INTRODUCTION

The COVID-19 global health crisis, that has rapidly become an economic crisis, is severely harming the livelihoods of people all around the world. At the start of 2020, the COVID-19 pandemic took the world into a state of emergency. As of June 11th, The World Health Organization reported 7,255,960 confirmed cases of coronavirus and an estimated 412,583 deaths globally, spread over 216 countries. These cases are mostly concentrated in the USA, Brazil, Russia, the United Kingdom and Spain, and the virus is continuing to spread exponentially. The Southern Mediterranean and African countries registered the first cases in early March, later than in China and Europe. This gave governments in these countries the chance to learn from the practices of those countries that were hit first and to adopt swift and strict containment measures (Ayadi, 2020). This resulted in a seemingly lower speed of contagion in African (with the exception of South Africa) and Southern and Eastern Mediterranean countries (with the exception of Egypt and Turkey)¹. Indeed to mitigate the risk of the virus spread, governments worldwide implemented confinement measures, ranging from social distancing to total lockdown, increasingly constrained the movement of people and closure of many businesses. Despite the importance of these measures in containing the virus, the disruption to economic activity cannot be overlooked. This raises the question of the importance of financial inclusion and digital financial services, in such times where human interaction, mobility and business operations are limited.

This policy paper emphasises the role of digital financial inclusion as a pillar of resilience to respond to exogenous shocks and pandemics, such as the COVID-19 crisis, and recommends prompt actions to reach the unbanked via digital financial services, in order to help these vulnerable groups throughout the current challenging conditions and recovery period.

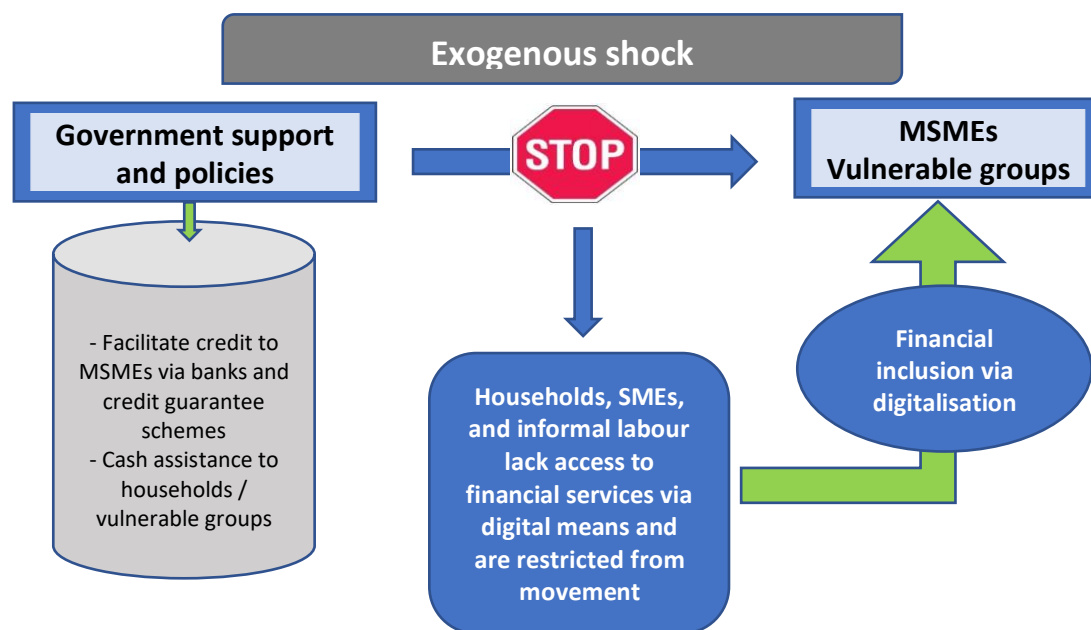
CHALLENGES IMPOSED BY COVID-19

In responding to COVID-19, policy makers had to face a significant trade-off between saving human lives and maintaining health and economic systems. Containment measures taken by countries are essential to achieving a reduction in transmission of the virus and mortality rates (European Commission, 2020). However, these measures imposed a heavy burden, particularly on households and MSMEs, in terms of business closures (in the most affected sectors, e.g. tourism, leisure, etc) that

¹ For a comprehensive analysis on the evolution of the contagion in the Mediterranean and Africa refer to <https://research.euomed-economists.org/covid-19/#>.

negatively affected income and employment (e.g. layoffs and salary cuts). To respond to these challenges, governments acting as the ultimate shock absorbers implemented a number of policies, mainly aimed at supporting MSMEs and vulnerable groups. These policies included social measures, such as disbursement of cash assistance to the most vulnerable and monetary measures, such as lowering reserve requirements, interest rate cuts, funding facilities and credit guarantees to finance MSMEs operational costs. However, the effectiveness and reach of such policies are conditional on the ability of these groups to access financial services, thus making financial inclusion an essential pillar of resilience to absorb the shock (Figure 1). In this context, the main question remains whether financial inclusion is developed sufficiently enough in low and middle-income countries, such as countries in the Southern Mediterranean and Africa, to effectively reach the poorest and most affected by the crisis.

Figure 1: Policy responses and financial inclusion



Source: Authors' elaboration

In recent years, great commitments and effort have been made towards broader financial inclusion, which has been identified as a key enabler for 7 of the 17 Sustainable Development Goals. The World Bank Group launched the Universal Financial Access 2020 Initiative with the following vision “adults worldwide -- women and men alike -- will be able to have access to a transaction account or an electronic instrument to store money, send payments and receive deposits as a basic building block to

manage their financial lives.” (The World Bank, 2018). Additionally, The G20 Global Partnership for financial inclusion encouraged governments to promote a digital approach for financial inclusion (GPII, 2017). Such commitments and effort have resulted in significant improvement in financial inclusion. According to the most recent data by the Findex database, 69% of adults worldwide have an account at a bank or another type of financial institution, or have reported personally using a mobile money service in the past 12 months. However, the gap in gender and income groups persists most significantly in developing countries.

Africa and the South and East Mediterranean paint a mixed picture in terms of financial inclusion, with the majority of countries having a low level of adults reporting that they have an account. Table 1 provides data on financial inclusion indicators in selected countries in the Mediterranean and Africa. Sub-Saharan Africa ranks the lowest amongst all regions in terms of access to formal financial services provided by banks (Sha’ban et al., 2019). However, Mobile Money Accounts enabled broad success in reaching out to individuals who are otherwise excluded from the formal financial system in the region. In Kenya, where the M-PESA service was launched in 2007, 73% of adults report using mobile money. In the South-East Mediterranean less than 50% of adults report having any type of account, mobile money usage is very limited, and cash use is very high. According to available data, both regions were characterised by low levels of financial literacy (Klapper et al., 2015). These factors represent a major challenge for governments in these countries, in terms of reaching out to MSMEs, households and the informal sector, who are severely hit by the pandemic and are restricted from movement. Hence, financial exclusion can be seen as a major barrier.

Table 1: Financial inclusion indicators for selected countries in the South-East Mediterranean and Africa (2017)

Country	Account (% age 15+)	Made or received digital payments in the past year (% age 15+)	Mobile money account (% age 15+)
South-East Mediterranean countries			
Algeria	42.8	26	NA
Egypt, Arab Rep.	32.8	22.8	1.8
Jordan	42.5	32.5	1.1
Lebanon	44.8	33.1	NA
Morocco	28.6	16.7	0.6
Tunisia	36.9	29.4	2
Turkey	68.6	63.8	16.4
West Bank and Gaza	25	14.2	NA
Sub Saharan African countries			
Benin	38.5	28.5	18.1

Botswana	51.0	41.8	24.4
Burkina Faso	43.2	38.9	33.0
Cameroon	34.6	28.6	15.1
Central African Republic	13.7	9.3	NA
Chad	21.8	19.0	15.2
Congo, Dem. Rep.	25.8	21.7	16.1
Congo, Rep.	26.1	17.8	6.2
Ivory Coast	41.3	38.3	34.1
Ethiopia	34.8	11.9	0.3
Gabon	58.6	54.0	43.6
Ghana	57.7	49.5	38.9
Guinea	23.5	20.2	13.8
Kenya	81.6	79.0	72.9
Lesotho	45.6	37.8	27.6
Liberia	35.7	27.6	20.8
Libya	65.7	31.8	NA
Madagascar	17.9	15.0	12.1
Malawi	33.7	27.6	20.3
Mali	35.4	31.0	24.4
Mauritania	20.9	15.7	4.0
Mauritius	89.8	68.5	5.6
Mozambique	41.7	34.1	21.9
Namibia	80.6	71.4	43.4
Niger	15.5	13.0	8.7
Nigeria	39.7	29.7	5.6
Rwanda	50.0	38.9	31.1
Senegal	42.3	39.5	31.8
South Africa	69.2	60.1	19.0
South Sudan	8.6	7.3	NA
Tanzania	46.8	43.0	38.5
Togo	45.3	31.3	21.5
Uganda	59.2	54.7	50.6
Zambia	45.9	38.7	27.8
Zimbabwe	55.3	52.5	48.6

Source: Authors' elaboration from Findex Database

The situation for SMEs is equally challenging. Table 2 provides data on SME access to financial services (accounts and loans) in selected countries in the Mediterranean and Africa (latest available data by the World Bank Enterprise Survey). The majority of small businesses do not have access to loans in these countries and a significant percentage identify access to finance as being a major

constraint, raising the question of the ability of these excluded businesses to take advantage of government policies in response to the crisis, such as interest rate cuts and funding facilities.

Table 2: SME access to finance in selected countries in the South-East Mediterranean and Africa

Economy	Year	Percent of firms with a checking or savings account	Percent of firms with a bank loan/line of credit	Percent of firms identifying access to finance as a major constraint
Small (5-19)				
Egypt	2016	58.3	4.7	25.8
Jordan	2019	69.3	13.3	18.4
Lebanon	2013	89.2	49.1	42.7
Morocco	2019	57.9	18.6	28.9
Tunisia	2013	95.8	47.5	24.1
West Bank and Gaza	2019	81	13	26.2
Benin	2016	85.7	16	53.1
Cameroon	2016	73.6	11.3	44.6
Chad	2018	57.1	9.2	44.2
Ivory Coast	2016	84	14.2	74.9
Eswatini	2016	88.8	18.3	11.5
Gambia	2018	92.2	9.7	72
Guinea	2016	97.9	2.5	28.2
Kenya	2018	90.7	27	32.3
Lesotho	2016	80.8	12	38.4
Liberia	2017	64.4	10.6	37.1
Mali	2016	85.2	13.8	68.1
Malta	2019	91.8	39.2	9.4
Mozambique	2018	81	6.8	17.8
Niger	2017	93.5	17.4	24.1
Rwanda	2019	90.9	32.9	17.1
Sierra Leone	2017	67.2	7.7	68
Togo	2016	91	41.9	54.7
Zimbabwe	2016	92.6	4	55.1

Medium (20-99)				
Egypt	2016	87.5	7.8	18.3
Jordan	2019	93.8	16	16
Lebanon	2013	98.6	70.1	39.6
Morocco	2019	65.6	22.5	27.4
Tunisia	2013	96.7	59	26.9
West Bank and Gaza	2019	96.1	18.8	26.8
Benin	2016	98.8	15.6	26.1
Cameroon	2016	96.6	18	25.7
Chad	2018	58.3	38.5	14.9
Ivory Coast	2016	97.3	33	57.1
Eswatini	2016	94.8	32.2	7.9
Gambia	2018	100	11.8	37.9
Guinea	2016	98.3	8	45
Kenya	2018	86.3	44.8	21.6
Lesotho	2016	81.8	28.2	19.5
Liberia	2017	80.2	22.8	46.5
Mali	2016	99.1	41.9	57.4
Malta	2019	95.3	54.2	10.4
Mozambique	2018	89.5	17.4	16.2
Niger	2017	98.1	28.1	24.6
Rwanda	2019	99.6	32.4	20.5
Sierra Leone	2017	90.3	9.3	55.9
Togo	2016	96.4	45	46.8
Zimbabwe	2016	91.9	18.9	64.1

Source: Authors' elaboration from World Bank Enterprise Surveys

In summary, the COVID-19 pandemic as an exogenous major crisis required governments to take prompt action to reach out to the most vulnerable. However, the level of financial inclusion in these countries is not developed enough to facilitate this reach². The following section highlights the role of financial inclusion in facilitating the reach to these groups during the crisis.

² For a comprehensive assessment of the level of financial development and financial inclusion in the Southern and Eastern Mediterranean, refer to Ayadi et al., (2019) & Ayadi et al., (2018).

ROLE OF DIGITAL FINANCIAL INCLUSION AS A PILLAR OF RESILIENCE

There are several definitions and methods to measure financial inclusion provided by different policy-making bodies and international organizations and these definitions and measurements might also vary based on the country's situation (e.g., inclusivity, development and income). However, financial inclusion can be broadly defined as the situation where adults and firms worldwide have access to affordable basic financial services that meet their needs without any form of discrimination. Digital financial inclusion involves capitalising on cost-saving digital technologies and the widespread use of mobile phones to reach the financially excluded and enhance access to formal affordable financial services in a sustainable manner.

Financial inclusion is considered an important enabler to lower poverty and increasing development³. However, the current COVID-19 crisis has highlighted how financial inclusion can also help economies withstand unexpected shocks through reaching out to vulnerable groups. The adoption of innovative digital approaches of financial inclusion accelerates the reach to underserved populations, particularly those in the informal sector, giving them the ability to benefit from government support, to save, make payments and access credit, enabling them to withstand these shocks and to gain a path towards formality.

The following section clarifies how further development in financial inclusion could enhance resilience to shocks and facilitate recovery, mainly through transmitting monetary policy and facilitating digital solutions to help the unbanked send and receive cashless payments in a secure and timely manner, which are all essential in reducing informality and tackling poverty.

³ Studies on financial inclusion indicate its positive impact on different social and economic indicators such as economic growth, income equality, wealth, household well-being, innovation, employment, female empowerment and creation of firms, in addition to combatting money-laundering and terrorist financing (Aportela, 1999, Honohan, 2004, Beck et al., 2007a, Guiso et al., 2009, Karlan and Zinman, 2009, Ashraf et al., 2010, Prasad, 2010, Force, 2011, Montgomery and Weiss, 2011, Khan, 2011).

1. Transmission of Monetary policy

To limit the human and economic impact of the COVID-19 pandemic, governments have undertaken a number of economic responses including using monetary and macro-financial instruments. For instance, the closure of businesses due to the spread of the virus resulted in major liquidity shortages, so governments with the assistance of banks and credit guarantee schemes provided credit facilities and interest rate cuts which were mainly aimed at helping MSMEs fund their operational costs. Table 3 provides examples of the type of measures implemented by governments in the South-East Mediterranean and Africa. However, targetting government support, based on a firm’s size and needs, requires a broad outreach of financial services, which is typically only available for the formal sector and for larger firms in these regions. Hence, financial exclusion restricts government ability to effectively target resources to affected enterprises.

Banks and financial service providers are needed in such distressed situations and must provide prompt and necessarily efficient support for MSMEs by facilitating easy access to savings and credit accounts and simplifying credit applications for government support. This will ensure the survival of small companies and protect them from dependence on the high cost informal sector, loan sharks and payday lenders (Khan, 2011).

In other words, the transmission of monetary and financial measures, aimed at easing the financial burdens faced by individuals and small businesses, depends on their ability to access financial services (Mehrotra and Yetman, 2015). This highlights the importance of financial inclusion and its transmission channels in improving the reach and effectiveness of such policies.

Table 3: Selected monetary and financial policy responses to COVID-19

Country	Policy rate reduction	Reserve requirements reduction / additional liquidity	Funding facilities (for SMEs)	Promote use of Mobile money and electronic payments
Algeria	✓	✓		
Egypt	✓		✓	✓
Jordan	✓	✓	✓	✓
Morocco	✓	✓	✓	
Tunisia	✓		✓	✓
Turkey	✓	✓	✓	
Burkina Faso	✓			✓
Cameroon	✓			

Ivory Coast	✓		✓	✓
DRC	✓	✓	✓	✓
Ethiopia		✓		
Ghana	✓	✓		✓
Kenya	✓	✓		✓
Mauritius	✓	✓	✓	
Nigeria	✓		✓	
Rwanda	✓	✓	✓	✓
Senegal	✓		✓	✓
South Africa	✓	✓		
Togo	✓		✓	✓

Source: IMF policy responses to COVID-19

<https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#L>

2 Digital Financial Inclusion

The current situation has raised the urgency of digital transformation in financial services. First, movement restrictions and closure of bank branches in many countries highlighted the importance of digital payment services and online banking. Additionally, many SMEs in developing countries are still using cash payments and cheques to pay employee salaries. However, digital wallets can be easily utilised for such purposes to support the unbanked population who depend heavily on cash. In Jordan, for example, the government recommended using electronic wallets to pay salaries and make purchases. These wallets are offered from 7 different telecommunication and payment service providers, authorised by the Central Bank of Jordan. In this context, the CBJ launched Mobile Money for Resilience (MM4R) (COVID-19 Response Challenge Fund) to encourage mobile payment service providers and merchants to accept digital payments (CBJ, 2020). One service provider in the country declared an increase in digital wallet account registrations of 300% in the first month of the crisis. These efforts have resulted in a significant increase in the volume of transactions (more than 36.5 million JOD) and the number of newly registered wallets reached 190,000 between the end of March and the end of April 2020. Furthermore, the government announced that there will be roaming teams in different areas in the country to train people on the use of digital wallets, highlighting the importance of financial literacy in determining the effectiveness of such efforts.

Tunisia has also recently launched a digital wallet solution, enabling individuals to create virtual wallets on their mobile phones, to receive money and make payments. These wallets will be mainly used to distribute social aid in the country via post offices, bank branches and ATMs. The digital wallet was

announced as being operational from May 6, 2020 to distribute social support from around 4,000 distributing points.

The benefits of mobile money use extend beyond sending and receiving payments, as mobile money records reveal the financial behaviour of the unbanked and provide information that can help enhance transparency and calculate credit scores through electronic records. This may facilitate access to loans from the formal banking sector at a later stage, specifically for firms and individuals that lack collateral.

Furthermore, amid the spread of COVID-19, people started reconsidering cash use with the perception of banknotes as a medium for disease transmission. Contactless and digital payments are seen as being more secure. Data on digital wallets and cashless transactions during the crisis is not yet available, but it has been widely advertised by governments across the world, speeding up the transformation into cashless economies.

POLICY RECOMMENDATIONS

The current COVID-19 crisis has highlighted that digital financial inclusion is more critical now than ever, as more financially inclusive countries are better equipped to reach out to low income and vulnerable groups that have tended to be severely hit by the pandemic. In order to respond to this global crisis, governments, financial institutions and FinTech companies operating in South-East Mediterranean and Africa will have to step-up their efforts to provide innovative solutions and to quickly respond to the increased demand for financial inclusion, via digital solutions and platforms and more structured digital financial literacy programmes.

In particular, we recommend the following:

- 1) Facilitate individual and MSME access to banking/financial services, enabling them, for example, to open a new bank account online with key information requirements (KIR), which could be authenticated, signed online and without the need to visit a bank branch. This new process must be underpinned under a more flexible 'Know Your Customer' (KYC) requirement process. In countries where several documents are required to be physically deposited to open an account, financial inclusion efforts have not progressed, compared to those countries where the process and requirements have been simplified.
- 2) Promote the greater use of mobile digital wallets. Most importantly, governments to work towards digitising social payments. This would also enhance trust in such payment services and encourage small businesses, used to paying salaries in cash and cheques, to embrace

digital services. This should be accompanied with increased utilisation of post offices, ATMs and bank branches to enable cash withdrawals for mobile account holders. These measures will certainly lead to reduced informality.

- 3) Reach out to MSMEs that lack access to finance through innovative low-cost mechanisms to benefit from government support, with regards to credit facilities targetted at helping these firms cover their operational costs. This could be done by enabling MSMEs to apply for credit guarantees, provided by governments, online to avoid collateral requirements and enhance the risk appetite of banks.
- 4) Provide liquidity support to Micro-Finance Institutions to ensure their ability to continue operations and reach new micro enterprises during the crisis, lower the cost of micro-credits and defer loan repayments. Liquidity support should also be provided to mobile agents, in addition to waving transaction fees for merchants.
- 5) Increase digital awareness and enhance financial literacy (Digital Financial Literacy) to encourage the adoption of mobile and digital financial services. This can be done through utilising different media platforms, in order to provide digital financial education targetting vulnerable groups, such as the less educated, the elderly, MSME owners and women. Generally, financial education can also play a major role in preparing people to face the economic challenges imposed by the crisis and to facilitate economic recovery as quickly as possible.
- 6) The inclusion of the gender perspective in designing financial support policies, as social norms and culture may disproportionately impact the employment and income of women during the crisis, keeping in mind that women's labour force participation was very low even before the pandemic (Ayadi and Mouelhi, 2018). This can be done through targetted lending mechanisms that facilitate access to credit, with preferential terms for women-owned businesses.
- 7) More focus on financial inclusion channels in rural and marginalised urban areas through targetted enhancements for digital and internet connectivity, governments to invest in digital infrastructure and to make it affordable to achieve widespread internet access and usage. In addition to targetted enhancements to financial literacy, motivating banks to increase the number of branches and ATMs in such areas to avoid physical exclusion (on a longer term).
- 8) Ensure that compliance with international regulatory requirements does not have undue consequences in relation to financial inclusion. A number of countries in Africa are

identified as high risk, third world countries (having strategic deficiencies in their regimes regarding anti-money laundering (AML) and countering terrorist financing) and are required to enhance customer due diligence measures, including customer identification. Hence, digital identity has the potential to remove some of these major barriers to accessing financial services. However, it is important to ensure that the regulatory framework keeps pace with the digital economy to prevent cyber risks and enhance consumer protection.

Beyond these actions, global and regional initiatives must continue to design tools and develop strategies that will promote digital financial services.

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ABOUT EMEA

The Euro-Mediterranean Economists Association (EMEA) is a Barcelona-based regional think-tank established in 2012 that serves as a leading independent and innovative policy research institution; a forum for debate on the political and socio-economic reforms in Mediterranean and Africa; and promoter of actions and initiatives that fulfill objectives of sustainability, inclusiveness, regional integration and prosperity. It strives to contribute to the rethinking of the Euro-Mediterranean and Africa partnerships in view of the new dynamics of an emerging multi-polar world.

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